

OLYMPIA, WASHINGTON

October 7, 2003

10:00 a.m.

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Gary Locke, Governor
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Tom Morrill, Office of the Attorney General
Jim Bemis, Montague DeRose & Associates
Nancy Adams, Office of the State Treasurer
Darlene DeRose, Montague DeRose & Associates
Rob Fukai, Department of General Administration
Rodney Wendt, Orrick Herrington & Sutcliffe
Alice Ostdiek, Foster Pepper & Shefelman
Vicki Cox, Office of the State Treasurer
Susan Musselman, Susan D. Musselman, Inc.
Shad Pruitt, Office of the State Treasurer
Mike Roberts, Office of Financial Management
Kristi Wolgamot, Office of the State Treasurer
Sue Melvin, Office of the State Treasurer
Svein Braseth, Office of the State Treasurer
Mark Lahaie, Department of General Administration
Craig Donald, Department of General Administration
Grant Fredricks, Department of General Administration
Brad Shannon, Reporter
Bill Starkey, Seattle-Northwest Securities
Rob Shelley, Seattle-Northwest Securities
Nancy Notter, Office of the State Treasurer
Suzanne Coit, Office of the State Treasurer
Jay Reich, Preston Gates & Ellis
Bob Campbell, Lehman Brothers
Barton Potter, Office of the State Treasurer
Jeff Caldwell, Department of Transportation
Amy Arnis, Department of Transportation
Jerry Long, House of Representatives
Cynthia Weed, Preston Gates & Ellis
John Finke, National Development Council
Margie Smitch, Office of the Attorney General
Hugh Spitzer, Foster Pepper & Shefelman
Cindy Edens, Wright Runstad & Co.

Chairman Murphy called the meeting to order.

Governor Locke moved the minutes for the July 22, 2003 meeting be approved. Lt. Governor Owen seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said proposed Resolution 984 accepts the bids for the purchase of State of Washington General Obligation Bonds (State Housing Trust Fund), Series 2004T (Taxable) in the aggregate principal amount of \$20,000,000; fixing the interest rates for the bonds; in accordance with Resolution No. 983. Mr. Martin said twelve bids were received and accepted electronically through Parity at 8:30 a.m. Pacific Time. UBS Financial Services, Inc. submitted a true interest cost (TIC) of 1.9911285%; Griffin, Kubik, Stephens & Thompson, Inc. submitted a TIC of 1.9927853%; Citigroup Global Markets Inc. submitted a TIC of 2.0251449%; Morgan Keegan & Company, Inc. submitted a TIC of 2.0453120%; RBC Dain Rauscher submitted a TIC of 2.0571175%; Legg Mason Wood Walker, Inc. submitted a TIC of 2.0666571%; First Albany Corp. submitted a TIC of 2.0684555%; Goldman, Sachs & Co. submitted a TIC of 2.0971015%; Raymond James & Associates, Inc. submitted a TIC of 2.1567570%; Lehman Brothers submitted a TIC of 2.1979831%; Wells Fargo Brokerage submitted a TIC of 2.3184719%; and US Bancorp Piper Jaffray submitted a TIC of 2.3697381%; with the apparent low bidder being UBS Financial Services, Inc.

Mr. Martin presented proposed Resolution 984 to the committee.

Resolution 984 awards the sale of \$20,000,000 State of Washington Various Purpose General Obligation Bonds, Series 2004T (Taxable), authorized by Ch. 9, Laws of 2002, 2nd Sp. Sess., and Ch. 3, Laws of 2003, 1st Sp. Sess.

Governor Locke moved to adopt Resolution 984. Lt. Governor Owen seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 985 accepts the bids for the purchase of State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2004A, in the aggregate principal amount of \$125,865,000, more or less, as authorized by Chapters 39.42 and 39.53 RCW and Resolution No. 875 of the Committee. Mr. Martin said the Series R-2004A Bonds are tax-exempt current interest refunding bonds. The interest will be paid semi-annually on the outstanding principal.

Mr. Shelley said the market is very stable right now and we received four very aggressive bids. The savings on the refunding bonds is 6.8% which is above the committee's threshold of 5%. Mr. Martin said four bids were received and accepted electronically through Parity at 7:30 a.m. Pacific Time. Merrill Lynch & Co. submitted a TIC of 4.1493930%; Morgan Stanley submitted a TIC of 4.1561234%; UBS Financial Services, Inc. submitted a TIC of 4.1768189%; and Citigroup Global Markets Inc. submitted a TIC of 4.1898814%; with the apparent low bidder being Merrill Lynch & Co.

Mr. Martin presented proposed Resolution 985 to the committee.

Resolution 985 awards the sale of \$125,865,000, more or less, State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2004A, authorized by Chapters 39.42 and 39.53 RCW and Resolution No. 875 of the Committee.

Governor Locke moved to adopt Resolution 985. Lt. Governor Owen seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 986 accepts the bids for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004B, in the aggregate principal amount of \$57,945,000, more or less, as authorized by Chapters 39.42 and 39.53 RCW and Resolution No. 875 of the Committee. Mr. Martin said the Series R-2004B Bonds are tax-exempt current interest refunding bonds. The interest will be paid semi-annually on the outstanding principal.

Mr. Shelley said these bonds are refunding bonds that have a slightly higher savings of 7.45% compared to the Series R-2004A bonds savings of 6.8%. This translates into a savings of a little more \$8 million for the Series R-2004A and a little more than \$4 million for the Series R-2004B. Mr. Martin said four bids were received and accepted electronically through Parity at 7:30 a.m. Pacific Time. Merrill Lynch & Co. submitted a TIC of 4.1549787%; Morgan Stanley submitted a TIC of 4.1598045%; UBS Financial Services Inc. submitted a TIC of 4.1907953% and Citigroup Global Markets Inc. submitted a TIC of 4.1984438%, with the apparent low bidder being Merrill Lynch & Co.

Mr. Martin presented proposed Resolution 986 to the committee.

Resolution 986 awards the sale of \$57,945,000, more or less, State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004B, authorized by Chapters 39.42 and 39.53 RCW and Resolution No. 875 of the Committee.

Governor Locke moved to adopt Resolution 986. Lt. Governor Owen seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 987 (i) authorizes amendments to the existing consolidated lease/purchase financing program to allow for the issuance of combined real and personal property certificates of participation (COPs); (ii) approves the standard format for certain financing contracts, master financing contracts, agreements with trustees and other documents related to the issuance of COPs; and (iii) provides for the execution and delivery of COPs in financing contracts and master financing contracts, in series from time to time, in order to provide for the financing or refinancing of the costs of use and acquisition for public purposes of real and personal property by state and local agencies pursuant to RCW Chapter 39.94.

Mr. Martin said the state's lease/purchase program has been in existence since 1990 and is utilized by both state and local agencies. To date, real and personal property financing

contracts have been treated as different credit instruments in which COPs have been issued separately. Since the inception of the lease purchase program, the Office of the State Treasurer has financed over \$371 million for personal property and \$619 million of real property for state and local agencies. Adoption of this resolution will create the ability to finance real and personal property together.

Mr. Martin said a finance team comprised of Treasurer's staff, legal counsel, and the state's lease/purchase financial advisor has been working at the direction of the State Treasurer to update the standardized COP documents to allow for the issuance from time to time of combined personal and real property COPs. The ability to combine real and personal property into larger periodic COP financings creates an opportunity for lower interest rates and reduced issuance costs for the state and ultimately the taxpayers. The first combined COP to be issued under the amended documents is expected to be issued in December of 2003. Mr. Wendt said the documents have been updated for this purpose and the basic terms for the financing are the same. Chairman Murphy said it was better to combine the short-end equipment and long-end real estate to make it more cost effective for everyone and thus providing a lower interest cost. Now we have the opportunity to do fewer, but larger financings per year and because our costs are relatively fixed, the larger financings will effectively take advantage of economies of scale. The more dollars we can issue at the same time nets to the lower true interest cost to the borrower.

Governor Locke asked if this topic was similar in nature as the financing for the Tumwater Office Building which would be discussed in a few minutes. He asked if it created additional options for financings instead of only one option. Chairman Murphy said that while the general topic of COPs is similar in nature to the financing of the Tumwater Office Building, the focus of the resolution was narrower, dealing with the changes to the COP financing documents to gain economies of scale by allowing for the combining of state and local equipment and real estate. Unlike the Convention and Trade Center or Ecology Building COPs, which are large enough in and of themselves to be cost-effective as stand-alone issues, smaller projects aren't. The new documents allow several projects such as a fire hall in Eastern Washington, a couple of fire trucks and some school buses to be combined into one issue and to save on the costs of issuance by sharing them. Governor Locke asked if this standardization was for relatively small projects. Chairman Murphy said that although small projects may benefit the most as it will allow the small projects to be issued along with large projects, all will benefit.

Mr. Martin presented proposed Resolution 987 to the committee.

Resolution 987 approves the forms of master financing contracts, financing contracts and other documents, and authorizes the execution and delivery thereof in connection with each series of Certificates of Participation; all in accordance with RCW 39.94, as amended.

Governor Locke moved to adopt Resolution 987. Lt. Governor Owen seconded the motion and the resolution was adopted.

There being nothing further to come before the committee, the ten o'clock State Finance Committee meeting was concluded at 10:16 a.m. and the Public Deposit Protection Commission meeting was called to order.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Gary Locke, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary